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Extending the Copyright Act Abroad: The Need for Courts to Reevaluate the Predicate-Act Doctrine

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EXTENDING THE COPYRIGHT ACT ABROAD: THE NEED FOR COURTS TO REEVALUATE THE PREDICATE-ACT DOCTRINE

I. INTRODUCTION

In 1989, the United States became a party to the Berne Convention for the Protection of Literary and Artistic Works ("Berne Convention").[1] The Berne Convention implicitly mandates that copyright law operate territorially, that is, that copyrights are created and enforced under national law.[2] This concept has long been understood by U.S. courts who have acknowledged that the Copyright Act of 1976 has no extraterritorial application.[3] Both the Berne Convention and the Copyright Act are understood to mean that in transnational copyright disputes, the applicable law is the law of the county in which the infringement occurred.[4]

Over the last few decades, the marketplace has become increasingly international. The growth of the international market can be attributed to the creation of the World Trade Organization ("WTO") and the elimination of trade barriers.[5] Also, advances in technologies such as the Internet and digital communication and the emergence of numerous multi-national corporations have been catalysts for creating the international market.[6] As the marketplace has become more international, the opportunity for copyright exploitation abroad has grown. As a result, the U.S. courts have

1. Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (codified as amended in scattered sections of 17 U.S.C.).

2. Berne Convention for The Protection of Literary and Artistic Works, July 24, 1971, art 5(1), 1971 U.S.T. 263, 1161 U.N.T.S. 35 [hereinafter Berne]. *See* 4-17 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT §17.05[A] (2012).

3. Subafilms, Ltd. v. MGM-Pathe Commc'ns Co., 24 F.3d 1088, 1095-98 (9th Cir.1994).

4. NIMMER & NIMMER, *supra* note 2.

5. *Id.*

6. *Id.*

increasingly found themselves involved in transnational copyright disputes.[7]

When hearing transnational copyright disputes, the circuit courts have begun to apply U.S. domestic law to infringements which occurred entirely abroad. The application of U.S. law to infringing conduct abroad could be in conflict with the principle of territoriality set forth in the Berne Convention and the Copyright Act. However, the Second and Ninth Circuits created an exception to the Copyright Act's lack of extraterritorial application: the predicate-act doctrine. The predicate-act doctrine provides copyright owners who have established that an infringing act within the United States facilitated further infringements abroad the ability to collect damages including profits made from the unauthorized foreign exploitation.[8] Recently, the Fourth Circuit elected to adopt the predicate-act doctrine and awarded damages based on profits made from infringing conduct abroad.[9] This note aims to analyze whether the predicate-act doctrine is valid under the Berne Convention, and whether there is reason to adopt the doctrine nonetheless.

Part II of this article will provide background information on the principle of territoriality, as understood by the Berne Convention and U.S. law; the globalization of the marketplace; and the Second and Ninth Circuit cases that created the exception to the lack of extraterritorial application of the Copyright Act. Part III will discuss the subject opinion of this note, *Tire Engineering & Distribution v. Shandong Linglong Rubber Co.*, which adopted the Second and Ninth Circuits' exception. Part IV will discuss whether the circuits' exception is valid in light of U.S. copyright

7. Graeme B. Dinwoodie, *A New Copyright Order: Why National Courts Should Create Global Norms*, 149 U. PA. L. REV. 469, 529 n.185 (2000).

8. *See, e.g.*, Update Art, Inc. v. Modiin Publ'g, Ltd., 843 F.2d 67, 73 (2d Cir.1988) ("As the applicability of American copyright laws over the Israeli newspapers depends on the occurrence of a predicate act in the United States, the geographic location of the illegal reproduction is crucial. If the illegal reproduction of the poster occurred in the United States and then was exported to Israel, the magistrate properly could include damages accruing from the Israeli newspapers."). *See also* Tire Eng'g & Distrib., LLC v. Shandong Linglong Rubber Co., 682 F.3d 292, 306-07 (4th Cir. 2012).

9. *Tire Eng'g & Distrib.*, 682 F.3d at 308, 312-13.

law and the Berne Convention. In addition, Part IV investigates policy reasons behind the exception, and proposes an alternative solution to meet these policy concerns without conflicting with the principle of territoriality. Part V will discuss the future implications of the ruling, both domestically and internationally, as well what the future holds with respect to international copyright law.

II. BACKGROUND

A. Territoriality of Copyright Law

Under traditional copyright law, international protection of copyrights is afforded by "a mosaic of distinct, national systems of protection."[10] This is because it has long been understood that copyright laws operate territorially.[11] That is, as a general matter, copyrights are territorial in nature and are created by national law, not by an international treaty.[12] For instance, an American movie is protected by United States copyright law only within the United States borders.[13] Copyright protection for the American movie abroad is afforded by the relevant foreign country's law.[14] This principle of territoriality can be found in international treaties[15] and in the application of U.S. copyright law.[16]

10. Graeme W. Austin, *Domestic Laws and Foreign Rights: Choice of Law in Transnational Copyright Infringement Litigation*, 23 COLUM.-VLA J.L. & ARTS 1, 2 (1999).

11. Dinwoodie, *supra* note 7, at 528.

12. DANIEL C.K. CHOW & EDWARD LEE, INTERNATIONAL INTELLECTUAL PROPERTY 16 (2 ed. 2012).

13. *Subafilms,* 24 F.3d at 1095, n.10.

14. *Id.*

15. While the international treatises do not explicitly refer to the principle of territoriality, the principle is commonly found to be implicit in the treatises. NIMMER & NIMMER, *supra* note 2; *see* Berne, *supra* note 2.

16. *Subafilms*, 24 F.3d at 1095-96.

1. The Berne Convention

International copyright law was first addressed in 1866 in Bern, Switzerland by an international agreement known as the Berne Convention for the Protection of Literary and Artistic Works ("Berne Convention").[17] The Berne Convention sought to provide protection for each member countries' citizens' work abroad while avoiding substantial changes to each signatory's national laws.[18] To accomplish this goal, the Convention first required each signatory to ensure that its national laws would abide by minimum substantive standards.[19] Second, the Convention required each nation to adhere to the principal of national treatment.[20] Article 5(1) of the Berne Convention states that:

> [a]uthors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted by this Convention.[21]

Under this principle, works of German authorship are afforded the same protection in France that French law provides to works of French nationals. Likewise, in Germany, French copyrights are to be protected under German law to the same extent as German copyrights are protected. It is commonly understood that this

17. Berne, *supra* note 2.

18. *See* Dinwoodie, *supra* note 7, at 490-91 ("For example, the Convention listed the types of works that a signatory state must protect and the minimum term of copyright protection. Signatory states could offer greater protection; they were obliged only to satisfy these minimum levels.").

19. Berne, *supra* note 2, art 2(1), 7. For example, Berne ensured that signatories would abide by minimum substantive standards of what types of works were to be protected and for how long the works were to be protected. *Id.*

20. Berne, *supra* note 2, art. 5(1).

21. *Id.*

principle of national treatment implicates a rule of territoriality.[22] Furthermore, the principle of territoriality is also said to be embodied in Article 5(2) of the Berne Convention.[23] Article 5(2) states "the extent of protection, as well as the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed."[24]

A consequence of the principle of territoriality is that in cases involving alleged conduct in numerous countries, a court must decide which law or laws to apply.[25] The Berne Convention is silent as to what law should be applied in transnational disputes.[26] Despite some speculation[27], the majority has interpreted Article 5(2) to endorse the *lex loci protectionis*.[28] That is, copyright disputes are to be litigated under the laws of the country where the protection is claimed; i.e., where the infringement occurred.[29] Nimmer has made this clear in stating that the applicable law is the copyright law of the state where the infringement occurred, not that of the state of which the author is a national or where the work was published first.[30]

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22. Austin, *supra* note 10, at 3.

23. *But cf.* Graeme B. Dinwoodie, *Developing A Private International Intellectual Property Law: The Demise of Territoriality?*, 51 WM. & MARY L. REV. 711, 718 (2009) (noting that "over a century of debate has not been resolved whether Article 5(2) of the Berne Convention even speaks to a choice of law or, if it does, what it says.").

24. Berne, *supra* note 2, art. 5(2).

25. CHOW & LEE, *supra* note 12, at 42.

26. *Subafilms*, 24 F.3d at 1097.

27. *See* Austin, *supra* note 10, at 3; Jane C. Ginsburg, Comment, *Extraterritoriality, and Multiterritoriality in Copyright Infringement*, 37 VA. J. INT'L L. 587 (1997); Paul Edward Geller, *Conflicts of Laws in Cyberspace: Rethinking International Copyright in a Digitally Networked World*, 20 COLUM.-VLA J.L. & ARTS 571 (1996).

28. Dinwoodie, *supra* note 23, at 718. Using the *lex loci protectionis*, the applicable law is the country for which protection is sought. *Id.* at 729.

29. Dinwoodie, *supra* note 7, at 533.

30. NIMMER & NIMMER, *supra* note 2.

2. Territoriality of the Copyright Act of 1976

The United States was not a member to the Berne Convention until it became a signatory in 1989 by the Berne Convention Implementation Act of 1988.[31] Despite this, U.S. courts have long held that the U.S. Copyright Act has no extraterritorial application.[32] The Ninth Circuit addressed the issue of the extraterritoriality of the Copyright Act in *Subafilms, Ltd. v. MGM-Pathe Communications Co.*[33] In *Subafilms*, the Ninth Circuit held that "the mere authorization of acts of infringement that are not cognizable under the United States copyright laws because they occur entirely outside of the United States does not state a claim for infringement under the Copyright Act."[34] Plaintiff owned the copyright to the movie "Yellow Submarine."[35] Plaintiff filed suit against a U.S. distributor for authorizing infringement of the copyright by licensing distribution of the movie in video cassette around the world.[36] Central to the case was the fact that the U.S. distributor had authorized the distribution from within the United States.[37] The district court awarded the plaintiff compensatory damages, split evenly between the foreign and domestic home video distributions.[38] The Ninth Circuit granted the defendant's petition for rehearing *en banc* with respect to the foreign distributions.[39] In support of its holding, the court stated that authorization of an infringing act itself does not create liability where the infringing act does not violate the Copyright Act.[40] The court reasoned that since the acts of infringement proscribed by the Copyright Act do not apply to conduct committed in foreign

31. Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (codified as amended in scattered sections of 17 U.S.C.).

32. *Subafilms*, 24 F.3d at 1095-96 (citing United Dictionary Co. v. G. & C. Merriam Co., 208 U.S. 260, 264-66 (1908)).

33. Subafilms, 24 F.3d at 1089.

34. *Id.* at 1099.

35. *Id.* at 1089.

36. *Id.*

37. *Id.*

38. *Id.*

39. *Subafilms*, 24 F.3d at 1090.

40. *Id.* at 1094.

countries, then there can be no liability for authorization because there was no unlawful act identifiable under U.S. law.[41]

The Ninth Circuit also denied the plaintiff's contention that the court should extend the U.S. copyright laws to extraterritorial acts of infringement when they result in adverse effects within the U.S.[42] The court noted that it has been consistently reaffirmed that copyright laws have no application to extraterritorial infringements.[43] In upholding the principle of territoriality, the court acknowledged that the principle is implicated by the Berne Convention's rule of national treatment.[44] Furthermore, the court acknowledged that Congress chose in 1976 to expand one specific extraterritorial application of the Copyright Act,[45] and had Congress wanted to overturn the Copyright Act's lack of extraterritorial application, then it "knew how to do so."[46] The Ninth Circuit does not stand alone in the assertion that the Copyright Act does not have extraterritorial application.[47]

B. Application of U.S. Copyright Law in Transnational Disputes

While copyright law operates territorially, the exploitation of copyrighted works has become international due to the growth of the international market.[48] Not surprisingly, given the United States involvement in the global market, U.S. courts have

41. *Id.*

42. *Id.* at 1095.

43. *Id.* at 1095-96 (citing *United Dictionary*, 208 U.S. at 264-66; Capitol Records, Inc. v. Mercury Records Corp., 221 F.2d 657, 662 (2d Cir. 1955)).

44. *Id.* at 1097.

45. *Subafilms*, 24 F.3d at 1095. In 1976, Congress chose to declare that unauthorized importation of copyrighted works constitutes infringement, regardless if the copies lawfully were made abroad. *See* 17 U.S.C. § 602(a) (2006).

46. *Id.* at 1096.

47. *See, e.g., Update Art*, 843 F.2d at 73 ("copyright laws generally do not have extraterritorial application"); Nintendo of Am., Inc. v. Aeropower Co., 34 F.3d 246, 249 n.5 (4th Cir. 1994) ("the Copyright Act is generally considered to have no extraterritorial application"); Iverson v. Grant, 946 F. Supp. 1404, 1411-12 (D.S.D. 1996), *aff'd* 133 F.3d 922 (8th Cir. 1998) ("United States copyright law has no extraterritorial effect").

48. Dinwoodie, *supra* note 7, at 479.

increasingly become involved in transnational copyright disputes. In light of this development, a willingness to apply U.S. copyright law extraterritorially has developed; not from statutory misinterpretation, but rather from a desire for courts to reach certain multinational conduct.[49]

While intellectual property has always involved elements of foreign trade, today, intellectual property has a larger role than ever in international business and commercial transactions.[50] This increased role can be attributed to globalization, or the free movement of people, goods, capital, services, and technology around the world.[51] As the marketplace becomes more international, the ability to exploit copyrighted material abroad becomes much easier. The global market has grown partly due to the creation of the General Agreement on Tariffs and Trade, and ultimately the WTO.[52] Additionally, technological advances, namely the Internet and wireless communication, have facilitated globalization, making it easier to access copyrighted works throughout the world.[53]

Perhaps the most influential factor in the increase of international copyright exploitation is the existence of multi-national enterprises. Multi-national enterprises own the most valuable intellectual property and drive the world's innovation.[54] To ensure they receive a sufficient return on their investments in research and development, multi-national enterprises push for stronger intellectual property rights.[55] The intellectual laws affording these rights must rely on sound doctrinal foundations, so there is no mistake as to what the laws mean.[56]

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49. 7 WILLIAM F. PATRY. PATRY ON COPYRIGHT § 25:86 (2012).

50. CHOW & LEE, *supra* note 12, at 4.

51. *Id.*

52. *See* CHOW & LEE, *supra* note 12, at 16. The focus of GATT and WTO was to lower barriers to trade in goods. *Id.* After implementing these, the result was a sharp increase of international trade in goods. *Id.*

53. *Id.* at 11.

54. *See id.* at 10. Multi-national enterprises have the necessary resources to invest in research and development, and as a result, they drive innovation. *Id.*

55. *Id.* at 11.

56. Austin, *supra* note 10, at 6-7.

1. Application of the Copyright Act in Transnational Litigation

Despite U.S. courts constantly denying the application of the Copyright Act extraterritorially, the Second and Ninth Circuit have provided relief for foreign copyright infringement.[57] In order to do so, the courts created and relied on the predicate-act doctrine; an exception to the principle of territoriality. The doctrine provides that copyright owners who establish that an infringing act within the United States facilitated further infringements abroad may be awarded damages that include the profits made from unauthorized foreign exploitation.[58]

The Second Circuit was the first to adopt the predicate-act doctrine in *Update Art, Inc. v. Modiin Publishing, Ltd.*[59] The plaintiff, Update Art, owned the rights to distribute and publish an art design known as "Ronbo".[60] The defendant, Modiin, was an Israel corporation, with a wholly owned subsidiary located in New York.[61] Modiin reproduced the Ronbo image in its Israeli newspaper, and Update filed suit in the Southern District of New York for copyright infringement.[62]

The district court found in favor of Update and referred the issue of damages to a magistrate.[63] The defendant failed to respond to several discovery requests, and as a result, the magistrate awarded damages of $475,406.[64] Upon a motion to reconsider, the defendant argued for the first time that Upright's claim did not apply to Israeli newspapers because American copyright laws had no extraterritorial reach.[65] The magistrate confirmed her previous

57. *Update Art*, 843 F.2d at 73; L.A. News Serv. v. Reuters Television Int'l, Ltd. 149 F.3d 987, 992 (9th Cir.1998).

58. Austin, *supra* note 10, at 8 (citing *Update Art*, 843 F.2d at 73).

59. *Update Art*, 843 F.2d at 68.

60. *Id.* at 68.

61. *Id.*

62. *Id.* at 69.

63. *Id.*

64. *Update Art*, 843 F.2d at 69-70.

65. *Id.* at 70.

decision; however she erroneously made no inquiries into Modiin's extraterritorial argument.[66]

On appeal, the Second Circuit addressed Modiin's extraterritorial argument. Modiin argued that a staff member saw the Ronbo image on a wall and thought it would be a good illustration for an article.[67] Thus, it asserted that reproduction of the image occurred solely in Israel.[68] However, due to the lack of evidence and because the poster was sold in the United States, the court said reproduction occurred domestically.[69]

The court acknowledged that copyright laws do not have extraterritorial application except when the type of infringement permits further reproduction abroad.[70] The court continued to state that if the illegal reproduction of the poster occurred within the United States prior to being exported to Israel, then damages accruing from the Israeli newspapers may be included.[71] However, if the reproduction, or "predicate act", occurred in Israel, then American copyright laws had no application to Israeli newspapers.[72] Since the court found the predicate-act occurred domestically, the final judgment including damages from the reproduction in Israeli newspapers was affirmed.[73]

The foundation for the predicate-act doctrine adopted in *Update Art* can be traced back to a 1939 opinion penned by Judge Learned Hand in *Sheldon v. Metro-Goldwyn Pictures Corp.*[74] The plaintiff was the copyright owner for a play, and the defendants created a motion picture in breach of the plaintiff's copyright.[75] A negative was printed in the United States and shipped to foreign countries

66. *Id.* The magistrate judge erroneously concluded that the district court judge had ruled on the extraterritoriality claim. *Id.*

67. *Id.* at 73.

68. *Id.*

69. *Id.*

70. *Update Art*, 843 F.2d at 73.

71. *Id.*

72. *Id.*

73. *Id.* at 74.

74. Sheldon v. Metro-Goldwyn Pictures Corp., 106 F.2d 45 (2d. Cir.1939). *See also* PATRY, *supra* note 49, at § 89.

75. *Sheldon*, 106 F.2d at 49.

where prints of the motion picture were made and exhibited.[76] The court ruled that damages were to include profits made from the exhibitions abroad.[77] Judge Hand stated:

> The negatives were "records" from which the work could be "reproduced," and it was a tort to make them in this country. The plaintiffs acquired an equitable interest in them as soon as they were made, which attached to any profits from their exploitation, whether in the form of money remitted to the United States, or of increase in value of shares of foreign companies held by the defendants. We need not decide whether the law of those countries where the negatives were exploited recognized the plaintiff's equitable interest; we can assume arguendo that it did not, for, as soon as any of the profits so realized took the form of property whose situs was in the United States, our law seized upon them and impressed them with a constructive trust. . . .[78]

While the court in *Update Art* agreed with Judge Hand, Judge Hand's reasoning has been subjected to criticism.[79] Nonetheless, the predicate-act doctrine is still sound law according to the Second Circuit.

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76. *Id.* at 55.

77. *Id.* at 52.

78. *Id.*

79. *See* PATRY, *supra* note 49, at § 89. Patry went as far as to say the passage is "farfetched." *Id.* He stated that the "property" is the claim to damages arising from foreign conduct, governed entirely by foreign law. *Id.* Hand is then criticized for assuming that the foreign law did not recognize the claim and therefore the existence of the "property." *Id.* Patry concludes that calling an award of legal damages an equitable trust is "sophistry", stating that "it is not only legal causes of action that are not extraterritorial under the Copyright Act all elements of those cases of action, including equitable remedies, are nonextraterritorial." *Id.*

In 1998, the Ninth Circuit followed the Second Circuit's doctrine in *L.A. News Serv. v. Reuters TV Int'l.*[80] The plaintiff, Los Angeles News Service ("LANS"), produced two videos from its helicopter of the April 1992 riots in Los Angeles following the Rodney King verdict.[81] LANS copyrighted the two videos and licensed them to NBC, which used them on the *Today* show.[82] The defendants, Reuters, through its joint venture with NBC, Visnews International (USA), Ltd. ("Visnews"), had a news supply agreement with NBC News Overseas. [83] When the LANS footage was broadcasted on the *Today* show, NBC simultaneously transmitted the show to Visnews in New York.[84] Visnews then made a videotape copy of the LANS footage and transmitted it to subscribers in Europe and Africa.[85] In response, LANS filed suit for copyright infringement.[86] The district court found that Visnews had infringed by making the copy of the LANS footage. [87] However, the court awarded only statutory damages, and held that extraterritorial infringement (broadcasting the tapes abroad) did not violate American copyright law.[88] LANS appealed.[89]

The Ninth Circuit reversed the district court with respect to extraterritorial infringement.[90] The decision seemed to contradict the holding in *Subafilms*; however the court differentiated the cases based on their facts.[91] In *Subafilms*, authorization of infringing conduct occurred domestically, however, the infringing acts themselves occurred entirely abroad.[92] Here, the infringing acts themselves, Visnews' unauthorized copying of LANS footage,

80. *L.A. News*, 149 F.3d at 992.
81. *Id.* at 990.
82. *Id.*
83. *Id.*
84. *Id.*
85. *Id.*
86. *L.A. News*, 149 F.3d at 991.
87. *Id.*
88. *Id.*
89. *Id.*
90. *Id.* at 997.
91. *Id.*
92. *Subafilms*, 24 F.3d at 1098.

occurred domestically.[93] Thus, the issue of whether LANS could recover damages for foreign exploitation of domestic acts of infringement was never answered in *Subafilms*.[94]

LANS argued for the Ninth Circuit to adopt the Second Circuit's rule set forth in *Update Art*, and the court ultimately elected to do so.[95] The court reasoned that the Second Circuit rule was valid because it would not allow the application of domestic copyright law to infringing acts that take place entirely abroad.[96] As a result of *L.A. News*, the Ninth Circuit became the second circuit to adopt the predicate-act doctrine. Fourteen years later, the Fourth Circuit would become the third circuit to adopt it.

III. TIRE ENGINEERING & DISTRIBUTION V. SHANDONG LINGLONG RUBBER COMPANY

A. Factual Background

Tire Engineering & Distribution, LLC, doing business as Alpha Tyre Systems and Alpha Mining Systems (collectively 'Alpha'), sells specialized tires for underground mining vehicles.[97] Prior to 2005, Alpha was very successful in the mining-tire market based upon its unique and effective designs.[98] Alpha obtained copyrights for its designs, and it trademarked its "Mine Mauler" product name.[99] Additionally, Alpha closely guarded its blueprints to ensure that no company could duplicate its successful tire designs.[100]

In May 2005, John Canning ('Canning'), a former Alpha employee, organized a meeting at a hotel in Virginia.[101] Canning invited Sam Vance ('Vance'), an employee of Alpha, and Surender Kandhari ('Kandhari'), the chairman of the defendant company Al

93. *L.A. News*, 149 F.3d at 992.
94. *Id.*
95. *Id.*
96. *Id.*
97. *Tire Eng'g & Distrib.*, 682 F.3d at 298.
98. *Id.*
99. *Id.*
100. *Id.*
101. *Id.*

Dobowi.[102] The purpose of the meeting was to discuss Al Dobowi's entry into the mining-tire industry.[103] Vance had offered to supply Al Dobowi with Alpha's blueprints for it tires, its customer list, and its cost information.[104] The men planned on using this information so Al Dobowi could produce and sell mining tires that duplicated Alpha's successful designs.[105]

After the meeting, Vance began working on a business plan in Virginia to sell mining tires both domestically and internationally.[106] Vance submitted his business plan to Kandhari, and Kandhari then offered Vance a position as "Business Development Director for an Al Dobowi group company based in the United States."[107] From that point on, Vance's Virginia-based office was referred to as a satellite office of Al Dobowi.[108]

Once Alpha's blueprints were obtained, the three men began a working relationship with Shandong Linglong Rubber Company, Ltd. ('Linglong') to produce mining tires using Alpha's blueprints.[109] Linglong had knowledge of the stolen blueprints, and discussed with Vance ways to modify the tires to make the copying of Alpha's tires less noticeable.[110] In addition, Linglong had knowledge that Vance was working from an office in Virgina.[111]

In early 2006, Al Dobowi began to sell the tires made by Linglong under the name Infinity. [112] In fact, Al Dobowi convinced one of the largest manufacturers of underground mining equipment, Sandvik, to purchase tires from it rather than Alpha.[113] By July of 2006, Vance had abandoned his Virginia office and

102. *Id.*
103. *Tire Eng'g & Distrib.*, 682 F.3d at 298.
104. *Id.*
105. *Id.*
106. *Id.*
107. *Id.* at 298-99.
108. *Id.* at 299.
109. *Tire Eng'g & Distrib.*, 682 F.3d at 299.
110. *Id.*
111. *Id.*
112. *Id.*
113. *Id.*

moved to China.[114] During the winter of 2006, Jordan Fishman ('Fishman'), founder and CEO of Alpha, suspected Vance had stolen and provided the blueprints to Al Dobowi.[115] Prior to this, Fishman had seen an Infinity catalogue containing products nearly identical to Alpha's products. In the fall of 2006, he was able to see the Infinity tires up close at a trade show.[116] Fishman was struck by the similarity between the Infinity tires and Alpha's line of tires.[117]

B. District Court Decision

On October 28, 2009, Alpha filed separate suits (which the court consolidated soon after filing) against Al Dobowi and Linglong (collectively, 'Appellants') in the United States District Court for the Eastern District of Virginia, at Alexandria.[118] Alpha's amended complaint contained nine counts stemming from Appellants' conversion of the blueprints and sale of the infringing tires.[119]

First, Appellants moved to dismiss for lack of personal jurisdiction, and the district court denied the motion, stating there was a prima facie basis for showing personal jurisdiction.[120] The district court then dismissed all claims barred by their respective statute of limitations; specifically the court dismissed all claims under the Copyright Act that accrued before October 28, 2006.[121] The parties then proceeded to a jury trial where Alpha's damages expert testified that the company suffered damages amounting to $36 million because of Appellants' illegal acts.[122]

Ultimately, the court submitted five counts to the jury: (1) violation of the federal Copyright Act; (2) violation of the federal Lanham Act; (3) violation of the Lanham Act with respect to unregistered trademarks; (4) common-law conversion; and (5)

114. *Id.*
115. *Tire Eng'g & Distrib.*, 682 F.3d at 299.
116. *Id.*
117. *Id.*
118. *Id.* at 299, n.5.
119. *Id.* at 299.
120. *Id.*
121. *Tire Eng'g & Distrib.*, 682 F.3d at 299.
122. *Id.* at 300.

common-law civil conspiracy.[123] The court then instructed the jury as to the Copyright Act claim stating that copyright laws do not apply to infringement outside of the U.S.[124] However, if the plaintiff proved the foreign infringing acts occurred as a result of predicate infringing acts that occurred domestically, then the foreign infringing acts may be considered.[125] The jury found in Alpha's favor, and awarded $26 million in damages.[126]

First, Appellants contested the verdict in a renewed motion for judgment as a matter of law.[127] The court confirmed that it had personal jurisdiction over Appellants and denied Appellants' challenges to the conversion, conspiracy, and Copyright Act claims.[128] However, the court dismissed Alpha's registered-trademark claims and the unregistered-trademark claim for all but two of the eleven trademarks.[129] Finally, the district court found the jury's damages award was reasonable.[130]

C. Fourth Circuit Opinion

1. District Court's Exercise of Personal Jurisdiction Was Correct

The Fourth Circuit first addressed Appellants' assertion that the district court incorrectly exercised personal jurisdiction over them.[131] For personal jurisdiction to exist, Appellants must have had sufficient contacts with Virginia so that the exercise of personal jurisdiction over them complies with the demands of the Fourteenth Amendment's Due Process Clause.[132]

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123. *Id.*
124. *Id.*
125. *Id.*
126. *Id.*
127. *Tire Eng'g & Distrib.*, 682 F.3d at 300.
128. *Id.*
129. *Id.*
130. *Id.*
131. *Id.* at 300.
132. *Id.* at 301-2 (The Due Process Clause provides that a court may assert jurisdiction through either specific jurisdiction if the defendant's contacts with the State are also the basis for the suit, or personal jurisdiction with a showing of defendant's "continuous and systematic" activities in the State). *Id.* (citing

The court first established that both Al Dobowi and Linglong had purposefully availed themselves to Virginia.[133] Al Dobowi availed itself by conspiring to copy Alpha's designs at the hotel in Virginia; and both parties had substantial correspondence with Vance while he lived in Virginia.[134] Next, the court quickly concluded that Alpha's claims arose out of Appellants' contacts with Virginia.[135] Al Dobowi's visit to Virginia was the foundation for the dispute, and the correspondence with Vance was significant to Alpha's claim.[136] Based on these findings, the court held the district court's exercise of personal jurisdiction was correct.[137]

2. Adoption of the Predicate-Act Doctrine

The court then considered Appellants' challenge to the validity of the jury's verdict on Alpha's copyright claim.[138] Appellants argued that the Copyright Act did not provide Alpha a remedy because the claims involved conduct abroad and because the Copyright Act has no extraterritorial reach.[139] The Appellants also argued, in the alternative, that the court should only consider foreign conduct where the domestic violation is not barred by the Copyright Act's three-year statute of limitations.[140]

The Fourth Circuit first confirmed that, as a general matter, the Copyright Act has no extraterritorial reach.[141] The court then acknowledged that other courts have recognized a fundamental exception to this rule (the predicate-act doctrine): when the type of infringement permits further reproduction abroad, a plaintiff may

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ALS Scan, Inc. v. Digital Serv. Consultants, Inc., 293 F.3d 707, 711-12 (4th Cir. 2002)).

133. *Tire Eng'g & Distrib.*, 682 F.3d at 303-05.
134. *Id.* at 303-04.
135. *Id.* at 304-06.
136. *Id.* at 304.
137. *Id.* at 301.
138. *Id.* at 306.
139. *Tire Eng'g & Distrib.*, 682 F.3d at 306.
140. *Id.*
141. *Id.* (citing *Nintendo*, 34 F.3d at 249 n.5).

collect damages flowing from the foreign conduct.[142] After reviewing the Second Circuit decisions in *Sheldon* and *Update Art*, and the Ninth Circuit's adoption of the predicate-act doctrine in *L.A. News Service*, the Fourth Circuit adopted the predicate-act doctrine.[143] According to the court, the doctrine struck a balance between two competing concerns: the protection of aggrieved plaintiffs from savvy defendants and preventing defendants from facing stale claims.[144] Without the doctrine, a defendant could convert a plaintiff's intellectual property, wait for the statute of limitations to run, and then reproduce the property abroad with no penalty.[145] The court concluded that this would jeopardize intellectual property rights and undermine Congress's goals of the Copyright Act.[146]

After the Fourth Circuit adopted the predicate-act doctrine, it applied it to the facts of the case and concluded that Alpha had a valid claim, and ultimately the court sustained the jury's finding in favor of Alpha.[147] The court stated that for Alpha to succeed, it must show Appellants committed a domestic violation of the Copyright Act and damages flowed from foreign exploitation of the infringing act.[148] The court concluded that Appellants committed a domestic violation when they converted Alpha's blueprints and reproduced them without Alpha's authorization.[149] Furthermore, it concluded that Alpha was injured by Appellants' foreign exploitation of the converted blueprints because the Appellants manufactured and sold the replicate mining tires to former customers of Alpha, causing significant damages.[150]

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142. *Id.* at 306-08 (citing *Sheldon*, 106 F.2d at 52; *Update Art*, 843 F.2d at 73; *L.A. News*, 149 F.3d at 991; Litecubes, LLC v. N. Light Prods., Inc., 523 F.3d 1353, 1371 (Fed. Cir. 2008); Liberty Toy Co. v. Fred Silber Co., No. 00-1503, 1998 WL 385469, at *3 (6th Cir. June 29, 1998)).

143. *Id.* at 306-308.

144. *Id.* at 308.

145. *Tire Eng'g & Distrib.*, 682 F.3d at 308.

146. *Id.*

147. *Id.*

148. *Id.*

149. *Id.*

150. *Id.*

The court then addressed the Appellants contention that the predicate-act doctrine may not apply when recovery of damages from the domestic violation of the Copyright Act is barred by the three-year statute of limitations.[151] The court found the Appellants' argument to be unpersuasive.[152] In rejecting the argument, the court relied on language in the Ninth Circuit opinion of *L.A. News*: "An action must be 'commenced within three years after the claim accrued.' . . . A plaintiff's right to damages is limited to those suffered during the statutory period for bringing claims, *regardless of where they may have been incurred.*"[153] Since Alpha incurred damages in the prior three years, albeit from abroad, the court concluded that the fact that Alpha could not recover damages for Appellants' domestic infringement was irrelevant to the analysis.[154]

IV. ANALYSIS

The Fourth Circuit relied solely on case law from the Second and Ninth Circuits when adopting the predicate-act doctrine.[155] The court simply traced the roots of the doctrine and reviewed the Second and Ninth Circuits' application of the doctrine in several cases.[156] While the court correctly applied the doctrine after choosing to adopt it,[157] it never investigated the validity of the doctrine itself. Specifically, the court never chose to review whether the doctrine was legitimate under the Copyright Act and the Berne Convention.

Part A of this section will discuss the validity of the predicate-act doctrine purely in doctrinal terms. Part B will address why courts have felt the need to adopt the doctrine, regardless of its validity. In Part C, alternative solutions will be addressed and the "best" rule for courts to adopt will be advocated.

151. *Tire Eng'g & Distrib.*, 682 F.3d at 308.
152. *Id.*
153. *Id.* at 309 (quoting *L.A. News*, 149 F.3d at 992 (emphasis added)).
154. *Id.* at 309.
155. *Id.* at 306-10.
156. *Id.*
157. *Tire Eng'g & Distrib.*, 682 F.3d at 308-10.

A. Doctrinal Conflicts of the Predicate-Act Doctrine

The Fourth Circuit accepted the predicate-act doctrine with no regards for the principle of territoriality. The court elected to join the Second Circuit and Ninth Circuit by adopting the doctrine[158]; however, it did not question the validity of the doctrine, it merely reviewed the benefits of it.[159]

In adopting the predicate-act doctrine, the Fourth Circuit and the Ninth Circuit, relied on the language set forth by Judge Hand in *Sheldon* and the Second Circuit's affirmation of the doctrine in *Update*.[160] Neither the Fourth or Ninth Circuit, nor the Second Circuit in *Update* sought to analyze Hand's reasoning for the predicate-act doctrine; rather each accepted the existence of it and chose to adopt it. This is surprising given the change in circumstances since Judge Hand's opinion. In 1939, at the time of Judge Hand's opinion, the United States was not a party to the Berne Convention[161]; thus, it had no binding international obligations with respect to copyright law. In light of the Berne Convention's implication of the principle of territoriality, the predicate-act doctrine needs further examination.

Several experts have questioned the willingness of United States' courts to disregard international copyright law by applying the predicate-act doctrine.[162] Indeed, when looking at copyright law doctrinally, it is not difficult to identify the tension caused by the courts. Under the Copyright Act, a defendant is liable for acts which infringe the ownership rights afforded to the respective owner by the Act.[163] Under the Berne Convention, the ownership rights protected by copyright laws are created by each individual nation, and infringements are to be litigated under the laws of the country where infringement occurred.[164] When the Copyright Act

158. *Id.* at 308.

159. *Id.*

160. *Id.* at 306-07; *L.A.* News, 149 F.3d at 991-92.

161. 1 JOHN W. HAZARD, COPYRIGHT LAW IN BUSINESS AND PRACTICE § 1:63 (rev. ed. 2012).

162. *See* Dinwoodie, *supra* note 7, at 469; Austin, *supra* note 10, at 3.

163. 17 U.S.C. § 501(a) (2006).

164. NIMMER & NIMMER, *supra* note 2, at § 17.05[B]. *See also* Austin *supra* note 10, at 3.

is read in light of the Berne Convention, it only affords proprietary rights within the United States. Since those ownership rights only exist domestically, they cannot be infringed upon by acts outside of the territorial United States. Rather, copyright protection abroad is afforded by the relevant country, and infringing conduct is in violation of that country's laws, not U.S. law.

The predicate-act doctrine provides damages for profits made from copyright exploitation abroad, so long as a domestic copyright infringement furthers the foreign infringing conduct. Regardless of the domestic infringement, the doctrine is extending the Copyright Act to address infringing acts which themselves occur entirely abroad. It is difficult to understand how courts are finding parties liable for infringements which occur entirely abroad, given that these courts have a long history of recognizing that the Copyright Act does not apply extraterritorially.[165] If the principle of territoriality were applied consistently, the Fourth Circuit should not be able to apply the Copyright Act to Alpha's infringing manufacture of the mining tires. The infringing act itself, replicating the copyrighted tires, occurred entirely outside of the U.S., and subsequently outside of the Copyright Act's reach.

In sum, the predicate-act doctrine has a very weak doctrinal foundation. Providing relief for infringing acts which occur entirely abroad is in clear violation of: (1) the Copyright Act's lack of extraterritorial application, and (2) the common understanding that the Berne Convention requires copyright disputes to be litigated under the laws of the country where the infringement took place.

165. *See Update Art*, 843 F.2d at 73 ("copyright laws generally do not have extraterritorial application"); *Nintendo*, 34 F.3d at 249 n.5 ("the Copyright Act is generally considered to have no extraterritorial application"); *Iverson*, 133 F.3d at 922 ("United States copyright law has no extraterritorial effect"); Quality King Distribs., Inc. v. L'anza Research Int'l., Inc., 523 U.S. 135, 153 (1998) (Ginsburg, J. concurring) (quoting PAUL GOLDSTEIN, COPYRIGHT § 16:1-16:2 (2d ed. 1998)) ("Copyright protection is territorial. The rights granted by the United States Copyright Act extend no farther than the nation's borders.").

B. Reason to Adopt the Predicate-Act Doctrine

Despite the fact that there are clear conflicts between the predicate-act doctrine and copyright legislation, there are legitimate policy reasons for adopting the doctrine. The Copyright Act gets its authority from the U.S. Constitution.[166] The Constitution affords Congress the power to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective writings and Discoveries."[167] From this, it is clear that the progression of science and useful arts relies on an incentive for authors. In the context of copyright, enforcing copyright protection allows for authors to prosper economically. If authors are unable to protect their works effectively and earn profits, authors will not continue to produce original works. Subsequently, this will hinder the progress of science and useful arts.

The predicate-act doctrine addresses this consequence well. The predicate-act doctrine provides relief to copyright owners for lost profits in foreign markets. Given that the market has become increasingly international, it can be said that authors assume they will have the ability to exploit their copyrighted works abroad and gain profits from doing so. Providing relief for copyright holders against foreign conduct increases the incentive for authors, and therefore, promotes the goal of promoting the progress of science and useful arts.

Furthermore, the author's economic interests are not the only interests at stake with respect to copyright protection abroad. As stated earlier, the majority of highly valuable intellectual property belongs to multi-national enterprises. In the international community, the majority of these corporations are within the territory of the United States. Thus, the United States as a whole has an interest in protecting these rights abroad. The U.S. national economy is directly benefited by the income generated from these corporations exploiting their intellectual property. While this is clearly not a legal issue, it surely plays an important role when the

166. U.S. CONST. art. I, § 8, cl 8.
167. *Id.*

courts elect to award damages for copyright infringements occurring abroad.

C. Alternative Solutions and the "Best" Solution

When analyzing if courts should adopt the predicate-act doctrine, alternative solutions for remedying foreign infringements must be addressed. In its opinion, the Fourth Circuit showed no regard for any other alternative solutions. The court based its decision to adopt the doctrine on the potential ability of defendants to convert intellectual property, wait for the three-year statute of limitations to pass, and then reproduce the property abroad without impunity.[168] However, this is not the case. Without the predicate-act doctrine, there are two possible ways for addressing foreign infringement: U.S. courts could apply foreign law or the copyright owner could seek relief abroad.[169] Among the issues of seeking relief abroad is the inconvenience to the plaintiff of traveling to the country where infringement occurred. While still a viable solution, it is beyond to the scope of this article.

Applying foreign law in domestic courts poses one obvious issue: the ability of U.S. courts to interpret and apply foreign law correctly. Courts have faced this issue in other areas of the law on several occasions, and have understood its obligation to undertaking this task.[170] The possibility of applying foreign law incorrectly exists in all areas of the law, so courts should not hesitate to do this simply because it involves copyright law.[171] In actuality, application of foreign law in the copyright realm should be easier because of the required minimum standards set forth by

168. *Tire Eng'g & Distrib.*, 682 F.3d at 308.

169. Austin, *supra* note 10, at 3.

170. Piper Aircraft Co. v. Reyno, 454 U.S. 235, 261 (1981) (where the Supreme Court refused to apply the forum non conveniens doctrine solely because of the need to apply foreign law); Manu Int'l, S.A. v. Avon Prods., Inc., 641 F.2d 62, 68 (2d Cir.1981) (". . . [W]e must guard against an excessive reluctance to undertake the task of deciding foreign law, a chore federal courts must often perform.").

171. Austin, *supra* note 10, at 3.

the Berne Convention.[172] Indeed, in *Itar-Tass Russian News Agency v. Russian Kurier, Inc.,* the Second Circuit tackled the choice of law problem in the context of copyright law.[173]

In *Itar-Tass*, several Russian newspapers and the Itar-Tass news agency brought a copyright infringement action against an American Russian-language newspaper, alleging copying of the plaintiff's news articles.[174] The defendant did not dispute that the plaintiff's work had been copied; thus, the main issue was whether the plaintiff had ownership of the copyright in order to have standing to bring the action.[175] The issue of copyright ownership required a choice of law in order to resolve the dispute.[176] The court declined to interpret Article 5(2) of the Berne Convention as a choice of law rule[177], and found no relevant rule in the Copyright Act.[178] As a result, the court elected to "fill the interstices of the Act by developing federal common law on the conflicts issue."[179] The court first stated that different laws may apply to different issues within a copyright dispute, and so, the court bifurcated its analysis into the issue of ownership and the issue of infringement.[180]

On the issue of ownership, the court reasoned that copyright is a form of property, and under the Second Restatement, "the interests of the parties in property are determined by the law of the state with 'the most significant relationship' to the property and the parties."[181] Since the works at issue were created by Russian nationals and published in Russia, the court concluded that

172. Berne, *supra* note 2, art. 2(1), 7. As discussed above, the Berne Convention sets minimum substantive standards for what is protected and the duration of the right.

173. Itar-Tass Russian News Agency v. Russian Kurier, Inc., 153 F.3d 82, 88-93 (2d Cir. 1998).

174. *Id.* at 82.

175. *Id.* at 84-89.

176. *Id.* at 88.

177. *Id.* 89-90.

178. *Id.* at 90.

179. *Itar-Tass*, 153 F.3d at 90.

180. *Id.* at 90-92. For infringement, it was clear that United States law applied because the copying clearly occurred within the United States and the defendant was a United States corporation. *Id.* at 91.

181. *Id.*

Russian law was the appropriate source of law to determine copyright ownership.[182] Applying Russian law, the court found that newspaper articles are exempt from the Russian version of the work-for-hire doctrine; thus, the newspaper plaintiffs did not own copyright in each of the separate articles written by their employees.[183] While *Itar-Tass* involves whether a work was copyrightable under foreign law, it nonetheless demonstrates that US courts are already applying foreign copyright law in transnational disputes. In light of this, it is well within the purview of the court to apply foreign law to issues of infringement in transnational disputes.

The second issue with applying foreign law in domestic courts deals with the remedies afforded. Where damages have been awarded, courts have seemed to use domestic principles as the basis for their assessment of damages.[184] In the context of transnational copyright disputes, this would be completely illogical. If domestic courts accept that foreign substantive law governs a copyright dispute, it would be odd for the court to conclude that foreign law does not govern damages. Furthermore, the relief being sought in a transnational copyright infringement case supports application of foreign law for the calculation of damages. The copyright owner is seeking damages for lost profits in a foreign market due to the infringing product holding a share of the marketplace. Since the foreign law granted the opportunity for the copyright holder to gain a share of the country's market, it would make sense for the foreign law to govern damages. The application of foreign law for damages should not hinder the courts willingness to apply foreign law.

When deciding between adopting the predicate-act doctrine and applying foreign copyright law, courts should choose the latter. Rather, the application of foreign copyright law to infringements abroad parallels the initiative set forth in the Berne Convention much better than the predicate-act doctrine. Applying foreign law

182. *Id.*

183. *Id.* at 92-95 (holding, in contrast, that Itar-Tass news agency owned the copyright in its employees work because it was not excluded from the work-for-hire doctrine under Russian law).

184. Austin, *supra* note 10, at 21.

upholds not only the principle of territoriality in the Berne Convention, but it also maintains the courts longstanding view that the Copyright Act does not apply extraterritorially. Applying foreign law also addresses the incentive issue for which the predicate-act doctrine seems to have been created. Authors can still be assured that they will reap the economic benefits from copyright exploitation abroad. When there is infringing conduct abroad, the courts can remedy this by simply applying the foreign laws.

V. IMPACT OF THE FOURTH CIRCUIT OPINION

As a result of The Fourth Circuit's adoption of the predicate-act doctrine, it has provided more authority for the next circuit to do so. From a domestic standpoint, the Fourth Circuit has provided more assurance for copyright owners that they can seek damages for lost profits lost due to unauthorized copying abroad. Internationally, the Fourth Circuit's adoption of the predicate-act doctrine continues the trend of certain courts' willingness to disregard international copyright norms in favor of protecting the economic interests of its copyright owners.

Perhaps the most significant impact of this case will be inducement of more attention to the problem of applying the principle of territoriality in the ever-growing international market. The principle itself should be reconsidered given the change in circumstances with respect to the market, especially in light of the Internet. How easily can the principle be applied to the Internet, where it is increasingly more difficult to ascertain where infringement occurred? Despite this, the nature of copyrights still demands an aspect of territoriality. This is easily understood in comparison to trademark law, where the Lanham Act in some cases does have extraterritorial application.[185] Trademark law is aimed at protecting against confusion amongst consumers within the United States.[186] Foreign marketing practices outside of the United States can cause confusion within the United States, and

185. Steele v. Bulova Watch Co., Inc., 344 U.S. 280, 285-86 (1952).

186. SIEGRUN D. KANE, TRADEMARK LAW: A PRACTITIONER'S GUIDE § 1:2.1 (2011).

the Lanham Act needs to apply extraterritorially for those cases. The same cannot be said for copyright law because the goal is to create proprietor rights for an author, which is something that must be afforded by each country. In conclusion, the future of international copyright law is unclear, but it is almost certain to undergo significant reforms as international borders continue to dissolve with respect to copyright access.

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